Investor Beware: This Stock Is Plunging With No End in Sight!

Description

Every once in awhile, investors ought to consider doing some "spring cleaning" with their portfolios. With a new year, a new decade, and another $6,000 in TFSA funds to be put to work, it makes sense to go through the list of stocks you own and ask yourself whether your original investment thesis still holds on the name or whether circumstances have changed for the worse.

The strategy of buying and holding forever isn't as effective as it used to be in Warren Buffett's prime investing days. Technological disruptors have eroded the moats of many of the wonderful companies of yesteryear.

Some disrupted firms have effectively adapted with the times to better compete in the new era, others are scrambling to acquire their way out of trouble; still others are just praying for the disruption to end.

For the latter two types of disrupted firms, their competitive advantages may have vanished, making them far less desirable than they were when you decided to pick up their shares many years ago. Such fundamental deterioration (or secular headwinds) is more than enough reason to justify throwing in the towel on a stock.

Consider **Canadian Tire** (TSX:CTC.A), a beloved Canadian retailer that's fallen into a tailspin over the last year and a half. Shares of the Canadian icon are currently down 20% from August all-time highs and could be under further pressure as short-sellers continue slamming the company for its failure to remain competitive in the new era of retail.

Moreover, the company's credit card portfolio is seen by short-seller Steve Eisman as being a major sore spot amidst Canada's transition into the next credit cycle.

Don't just take the short-sellers word for it, however. Canadian Tire appears to be a company that's "scrambling to acquire" its way back to its former glory, with questionable acquisitions of exclusive consumer brands that aim to beef-up margins and drive traffic into its stores.

Canadian Tire's rapid-fire M&A strategy makes sense on paper, but in the grander scheme of things, I (and other bears) see Canadian Tire's M&A moves as undisciplined and akin to sticking one's hand in too many pies, as fellow Fool contributor Will Ashworth once put it. I see such an acquisition-based strategy to adapt as a bandaid solution that's not suitable for a wound that's at risk of being infected.

Given the significant strides that e-commerce disruptors have made over the years, it's vital to have an omnichannel solution that's at the very minimum, on par with the best of what the competition has to offer. That means having a high-quality online and offline presence, as well as a strong value proposition to keep customers coming back.

Unfortunately, in 2020, Canadian Tire continues to play catch up with the likes of robust American retailers that are hungry for Canadian Tire's slice of the pie. Canadian Tire is a cherished brand, but the company's loyalty program loses its lustre if the retailer can't effectively fire on all cylinders.

Brick-and-mortar retail has become a rough arena to play in, and if Stephen Wetmore and company can't bring the fight to the competition this year, I see further downside in the name.

Management responded to a report published by short-sellers at Spruce Point Capital Management last month, noting that the report "contained numerous inaccuracies" and that it'd be "extremely unfortunate if investors took action based on the report." With negligible amounts of insider buying recently, however, I remain skeptical over management's unsatisfying response.

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